

REBUTTAL TESTIMONY
OF
TORSTEN CLAUSEN

TELECOMMUNICATIONS DIVISION
ILLINOIS COMMERCE COMMISSION

Docket No. 00-0233/00-0335 Consolidated

Phase II

May 31, 2001

OFFICIAL FILE

III. C. G. DOCKET NO. OC-0233/0335

Staff 10.0

bioRxiv preprint doi: <https://doi.org/10.1101/140000>; this version posted March 1, 2017. The copyright holder for this preprint (which was not certified by peer review) is the author/funder, who has granted bioRxiv a license to display the preprint in perpetuity. It is made available under aCC-BY-NC-ND 4.0 International license.

Date 6/20/01 Reporter CB

1 **Q. Please state your name and business address.**

2 A. My name is Torsten Clausen and my business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4 **Q. Are you the same Torsten Clausen who provided direct testimony in this**
5 **docket?**

6 A. Yes, I am.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. I am responding to the direct testimony of several parties that address the funding of
9 an IUSF and the recovery of such funding from the contributing carriers' customers. I
10 will also respond to proposals regarding appropriate methods of fund
11 administration.

12 **Q. Please summarize the positions of the parties regarding funding of a**
13 **universal service support fund.**

14 A. Ameritech Illinois, Verizon, and Sprint all agree that the carriers' contributions to the
15 Illinois universal service support fund should be based on the carriers' intrastate
16 retail revenues.¹ Although MCI and AT&T prefer to base contributions on total
17 intrastate revenue minus intercarrier payments, both parties indicated their
18 willingness to accept the intrastate retail revenue methodology as an alternative.²

19 **Q. AT&T and MCI WorldCom state that funding based on total intrastate**
20 **revenue net of intercarrier payments is the superior funding methodology.**
21 **Do you agree?**

22 **A.** No. I described the various reasons for supporting a contribution method based on
23 intrastate retail revenue (as opposed to total intrastate revenue minus carrier-to-
24 carrier payments) in my direct testimony.³ I still believe using intrastate retail
25 revenues as the basis for contributing to the IUSF is most appropriate.

26 **Q.** **AT&T witness Hegstrom cites the FCC's Notice of Proposed Rulemaking**
27 **("NPRM") on intercarrier compensation⁴ as additional support for basing**
28 **universal service support contributions on a carrier's intrastate revenues**
29 **net of intercarrier payments. Do you agree?**

30 **A.** No. First, it is not useful to speculate on the content of rules which might
31 prospectively result from such NPRMs. The NPRM does not necessarily provide a
32 reliable indication of what the resulting rule will require. Second, as indicated by Ms.
33 Hegstrom, even if the FCC were to change its rules on intercarrier compensation, it
34 is not likely that such a change would occur in the near future. Notably, the NPRM
35 indicates that the current "CALLS" plan is very likely to stay in place until June 2005,
36 and that any changes to today's access charge regime will not take effect before the
37 expiration of the "CALLS" plan.⁵ It is ill advised to base Illinois policy today upon
38 what federal policy *might be* in 2005.

39 **Q.** **Please summarize the parties' positions regarding the proper mechanism to**
40 **recover the carriers' universal service obligations.**

¹ Verizon Ex. 4.0 (Beauvais) at 17; Ameritech Ex. 2.0 (O'Brien) at 10; Sprint Ex. 1.0 (Rcarden) at 6.

² MCI WorldCom (Sands) at 13; AT&T Ex. 3.0 (Hegstrom) at 17.

³ Staff Ex. 4.0 at 5-8.

⁴ *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Notice of Proposed Rulemaking,

41 A. Review of the direct testimony of the major IXC's and ILECs in this proceeding
42 suggests that there is widespread agreement that IUSF contributions should be
43 made an explicit line-item on the end-user bill. As I stated in my direct testimony, I
44 fully support such an explicit recovery mechanism. However, the parties do not
45 agree on the issue of whether a flat per-line charge or a percentage markup should
46 be used and in some cases, this issue is not directly addressed. Sprint and Verizon
47 support a percentage surcharge on the end users' bills⁶, while MCI WorldCom
48 prefers a flat per-line surcharge⁷. AT&T and Ameritech Illinois do not explicitly state
49 a preference.⁸

50 **Q. Why is the issue of a flat per-line surcharge versus use of a percentage**
51 **markup so important?**

52 A. The resolution of this issue determines the amount of the customer's IUSF charge in
53 relation to the customer's total bill for intrastate telecommunications services. The
54 following example illustrates the issue:

55 Assume carriers' contributions to the IUSF are based on intrastate retail revenue.
56 Consider a long distance carrier with 100 customers who cumulatively generate
57 \$10,000 in annual intrastate retail revenue.⁹ Assuming the size of the IUSF dictates
58 that 1% of total intrastate retail revenues must be contributed by each carrier, this
59 hypothetical long distance carrier would pay \$100 to the fund administrator.

FCC 01-132 (rel. April 27, 2001) ("Inter-carrier Compensation NPRM")

⁵ Inter-carrier Compensation NPRM at 97.

⁶ Sprint Ex. 1.0 (Rearden) at 6 and Verizon Ex. 4.0 (Beauvais) at 17.

⁷ MCI WorldCom (Sands) Direct at 15.

⁸ AT&T Ex. 3.0 (Hegstrom) at 23 and Ameritech Illinois Ex. 2.0 (O'Brien) at 10.

60

61 Now, if the carrier recovered its USF contributions through a per-line charge, all
62 customers would pay a \$1 charge, regardless of their usage. But, suppose the
63 carrier has 95 residential customers who each spent \$30 on intrastate services and
64 5 business customers who account for the remaining portion of the intrastate retail
65 revenue. If the carrier were to recover its USF contributions through a percentage
66 markup, the residential customers would each pay \$0.30, while the five business
67 users who, on average, spent \$1,430 on intrastate services, would each pay
68 \$14.30. This method ensures that high-volume users, who caused the majority of the
69 carrier's contribution to the universal service fund, pay in relation to their use.

70 The above example shows that the recovery method should be closely aligned with
71 the type of the carriers' contribution mechanism. In other words, if carriers are
72 required to pay USF contributions based on retail revenue, the recovery from their
73 customers should be acquired in the same manner, i.e. a percentage markup on
74 their retail bill. Otherwise, low-volume customers pay an inappropriately high share
75 of the carriers' USF contributions. Therefore, I strongly recommend the use of a
76 percentage markup on the end users' bill for intrastate telecommunications
77 services.

78 **Q. Both Verizon and Ameritech Illinois recommend that the Commission**
79 **should consider putting the administration for the Illinois universal service**
80 **fund out for bid. Do you agree?**

⁹ I am using an interexchange carrier ("IXC") in this example, but the same effect would hold true for a LEC.

81 A. Yes. While I agree with Mr. Schoonmaker that ISCECA, which administers the
82 current HCF and DEM weighting funds, should be the initial administrator of the
83 newly established fund, I also recommend putting the administration out for bid in
84 the near future. This ensures an efficient administration of the new Illinois universal
85 service fund.

86 **Q. Does this conclude your testimony?**

87 A. Yes.

88

89